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July 20, 1999

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: Alan Sasaki
Auditor-Controller

Subject: **AUDIT REPORT ON HIGH ASPIRATION HOME FOR TEENS – A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our audit report on High Aspiration Home for Teens' (HAHT) fiscal operations covering the period January 1, 1997 through December 31, 1997. The Agency was licensed to operate one group home with a resident capacity of six children. Subsequent to our review period, the Agency was placed on a "Do Not Use" status resulting from their filing a Chapter 7, Bankruptcy, which constitutes a material breach of DCFS' contract. Accordingly, this Agency is no longer in operation. The Agency was located in the Second Supervisorial District. The Department of Children and Family Services (DCFS) referred this Agency to us for audit.

DCFS contracted with HAHT to provide the basic needs and services for foster care children placed in the Agency's care. Under the provisions of the contract, DCFS paid the Agency a monthly rate per child, based on a rate classification level determined by the California Department of Social Services (CDSS). During our review period, HAHT received a monthly rate of $2,950 per child.

Scope

The purpose of our audit was to ensure that HAHT appropriately accounted for and spent foster care funds on allowable and reasonable expenditures for providing the necessary care and services to children placed in the Agency's care. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with the contract and applicable federal and CDSS fiscal guidelines governing the disbursement of group home foster care funds.

Summary of Findings

We have questioned a total of $60,387 in expenditures made by HAHT with County funds received under its group home contract. Of this amount, $54,284 represented cash transactions and other operating costs that were not supported by vendor invoices, receipts, or other appropriate documentation in accordance with applicable regulations. We identified an additional $3,935 in salary costs that were not supported by employee timecards.

We also noted a number of contract compliance and internal control weaknesses in the Agency's operations, including their procedures and controls over disbursements and payroll.

Based on the deficiencies noted during our review, we believe that the Agency's management was not capable of ensuring group home funds were properly expended. Details of our findings and recommendations are discussed in the attached report.

Review of Report

We discussed our report with DCFS representatives on July 16, 1999, and they were in general agreement with our findings. Due to the group home's closure, we were unable to contact Agency management to discuss our final report. DCFS has agreed to provide my office with a written response within 60 days detailing the resolution, if appropriate, of all findings contained in this report.

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HAHTBoardLtr.doc

Attachment

c: David E. Janssen, Chief Administrative Officer
Joanne Sturges, Executive Officer
Public Information Office
Audit Committee Members
Department of Children and Family Services
Sandra Davis, Interim Director
Walter Kelly, Interim Chief Deputy
Beverly Muench, Senior Deputy Director
Amaryllis Watkins, Acting Deputy Director, Bureau of Resources
Genevra Gilden, Chief, Quality Assurance Division
High Aspiration Home for Teens Group Home
Marjorie Becnal, Executive Director

High Aspiration Home for Teens
Fiscal Audit of Group Home Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracted with High Aspiration Home for Teens (HAHT) to provide the basic needs and services for foster care children placed in the Agency's care. HAHT was licensed to operate one group home with a resident capacity of six children.

Under the provisions of the contract, DCFS paid HAHT a monthly rate for each child, based on rate classification levels determined by the California Department of Social Services. HAHT received a monthly rate of $2,950 per child during the period of our review, January 1, 1997 through December 31, 1997.

Applicable Regulations and Guidelines

HAHT is required to operate its group home in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- Group Home Foster Care Contract (Contract), including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A/C Handbook).

- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations.

- California Department of Social Services Manual of Policies and Procedures (CDSS MPP).

- California Code of Regulations, Title 22 (Title 22).

Questioned Costs

Our review disclosed that HAHT used group home funds for questioned costs totaling $60,387. Details of the questioned costs are discussed below.

Undocumented/Inadequately Documented Costs

HAHT did not maintain adequate documentation in accordance with the Circular, CDSS MPP and the A/C Handbook to support group home expenditures totaling $59,955. Specifically, we noted:

- Expenditures totaling $54,284 were not supported by vendor invoices or receipts. The unsupported expenditures consisted of the following:

- $21,819 in checks made payable to "Cash".

- $32,465 in various operating costs including rent, vehicle insurance and registration charges, gasoline, car payments, clothing, children's allowances, postage, and utility charges.

- Expenditures for consulting, vehicle maintenance, clothing, and other operating costs totaling $1,311 were not supported with acceptable documentation. For example, receipts did not always identify the purpose or nature of the expenditure. We also noted that receipts provided to support a specific expenditure did not always total the check amount, nor were the receipts cross-referenced to the corresponding check.

- Payroll costs for three employees totaling $3,935 were not adequately supported (e.g., no timecards, etc.). In one instance, the employee received two payroll checks for the same pay period. The hours on the employee's timecard supported the pay for only one paycheck, and we were unable to determine why the employee received a second paycheck.

- $425 to an independent contractor that was not supported by adequate documentation (e.g., an invoice).

Unallowable Costs

Bank charges totaling $432 were incurred for checks written against non-sufficient funds. According to the Circular, fines and penalties resulting from violations of federal, State, and local laws and regulations are not allowable.

Recommendation

1. **DCFS management resolve the $60,387 in questioned costs and if appropriate, collect any disallowed amounts.**

Contract Compliance and Internal Controls

Our audit disclosed the following contract compliance issues and internal control weaknesses in HAHT's operations.

Revenue Collection Discrepancies

HAHT did not maintain appropriate records to ensure it received the correct payment for each child placed in the Agency's care as required by Title 22 and Contract Section 19. The Agency did not maintain an accounts receivable ledger reflecting amounts due and received on each child, and did not retain copies of all foster care warrants or duplicate deposit slips. Consequently, we were unable to determine whether all foster care funds were received and appropriately deposited into the group home bank account.

Without proper accounts receivable and collection records, the Agency could not monitor the accuracy of payments and identify and resolve payment discrepancies timely.

Disbursements by Cash

Checks were routinely made payable to "Cash". Checks made payable to "Cash" can be easily negotiated by unauthorized individuals. In addition, cash expenditures are more difficult to control and support.

During our review, we noted that documentation to support these expenditures was generally unavailable. When documentation was provided, it was incomplete and difficult to identify. Specifically, we noted the following:

- Receipts to support the cash disbursements did not always equal the total check amount.

- Receipts were not cross-referenced to the appropriate check. Accordingly, we could not determine which receipts actually supported the applicable check.

To ensure proper accountability over the use of group home funds, routine disbursements for group home operations should be made directly to the vendors via a check issued from the Agency's bank account.

Disbursement Procedures

HAHT's disbursement procedures were not in compliance with the Contract and A/C Handbook. We noted:

- HAHT's outside accountant reconciled the bank account, but did not sign and date the reconciliations when they were completed. In addition, HAHT's Executive Director indicated that she reviewed the reconciliations, but did not document her review in writing. Since bank reconciliations are a primary control for the detection of errors or irregularities, they should be prepared monthly and reviewed and approved by management. To document this process, the preparer and reviewer/approver should sign and date the reconciliations upon completing these functions.

- The Agency did not write or stamp "Paid" on vendor invoices and check numbers were not referenced to the supporting documentation. To prevent duplicate payments and facilitate the identification of payments to supporting documents, all invoices should be appropriately cancelled upon payment and referenced to check numbers.

Without proper disbursement controls in place, the Agency could not ensure group home funds were used in a cost effective manner and spent on actual, reasonable and allowable expenses in providing the necessary care and services to the children placed in the Agency's group home.

Payroll Procedures

HAHT payroll procedures were not in compliance with the Circular, CDSS MPP, Title 22 and the A/C Handbook. Specifically, we noted:

- In seven of 19 test items reviewed, the personnel files did not contain authorized salaries or hourly rates of pay approved by management. CDSS MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures including employee pay rates.

- Timecards were not provided for four of 19 test items selected for review. All employees should record actual hours worked on their timecard to support the time spent on group home activities and their related payroll costs reported annually to CDSS.

- In 13 of the 14 instances where a timecard was provided for our review, either the employee or the employee's supervisor did not sign the timecard. CDSS MPP Section 11-402 requires timecards be signed by both the employee and the employee's supervisor to certify the accuracy of reported hours worked.

Without proper payroll controls in place, the Agency cannot ensure payroll expenditures are authorized and accurate.

Compliance with Federal and State Payroll Tax Laws

As of October 30, 1997, HAHT had an outstanding tax liability of $25,916 due to the Internal Revenue Service (IRS) for unpaid payroll taxes in 1995 and 1996. We determined that $5,405 of the liability represented accumulated interest and penalties, which are unallowable costs per the Circular. Although a repayment agreement had been negotiated for these unpaid taxes, DCFS personnel indicated that, at the time of the Home's closure (i.e., June 1998), HAHT had failed to adhere to the repayment agreement.

We also noted that payments to the Agency's independent contractors were not consistently reported to the IRS and Franchise Tax Board as required. For example, we noted that a calendar year 1997 Miscellaneous Income form (1099) was not submitted for one contract employee.

Contract Section 32 requires group homes to comply with all applicable federal, State and County laws and regulations, including those related to payment of payroll taxes and reporting of income to the appropriate federal and State taxing agencies. Based on the above, it appears HAHT was in violation of their contract and federal and State tax laws.

Facility Lease Agreements

During our review period, HAHT leased one group home that was owned by the Executive Director's mother-in-law. We noted that HAHT did not have a properly executed lease agreement outlining monthly amounts due that was signed by the lessor and an authorized member of the Agency's Board of Directors. In addition, we noted that instead of making lease payments to the lessor, HAHT issued checks directly to the lender holding the note on the property as if HAHT was the mortgagee.

Insurance Coverage

HAHT did not maintain insurance coverage during the period of our review (January through December 1997). The Contract requires the group home to submit insurance confirmations annually to DCFS.

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